

MADISON DISTRICT PUBLIC SCHOOLS

MADISON HEIGHTS, MICHIGAN

AUDIT REPORT  
FOR THE YEAR ENDED JUNE 30, 2008

## **TABLE OF CONTENTS**

|  | <b><u>PAGE</u></b> |
|--|--------------------|
| Report of Independent Accountants  | I                  |
| Management’s Discussion and Analysis   | II - VIII          |
| Basic Financial Statements:  |                    |
| Government-wide Financial Statements:  |                    |
| Statement of Net Assets  | 1                  |
| Statement of Activities  | 2                  |
| Fund Financial Statements:   |                    |
| Balance Sheet – Governmental Funds   | 3                  |
| Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds                    | 4                  |
| Fiduciary Fund   |                    |
| Statement of Fiduciary Net Assets  | 5                  |
| Budgetary Comparison Schedules:  |                    |
| General Fund   | 6                  |
| Notes to the Financial Statements  | 7 – 16             |
| Other Supplemental Information   |                    |
| Combining Statements – Nonmajor Funds:   |                    |
| Combining Balance Sheet – Nonmajor Governmental Funds  | 17                 |
| Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds | 18                 |
| Individual Schedules of Revenues, Expenditures and Other Financing Uses:                                 |                    |
| Schedule 1 - Schedule of Bond Principal and Interest Requirements  | 19                 |



*Lewis & Knopf, CPAs, P.C.*

Serving You with Trust and Integrity

October 30, 2008

## INDEPENDENT AUDITOR'S REPORT

To the Board of Education of  
Madison District Public Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Madison District Public Schools, as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Madison District Public Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Madison District Public Schools as of June 30, 2008, and the respective changes in financial position, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As more fully described in Note 14 to the financial statements, the District has incurred expenditures in excess of revenues in the General Fund for many years. However, in the current year, revenues exceed expenditures by approximately \$1 million, which significantly reduced the fund deficit. The General Fund is in a deficit position at June 30, 2008. Administration's plans in regard to these matters are also described in Note 14.

In accordance with *Government Auditing Standards*, we have also issued our report under separate cover dated October 30, 2008 on our consideration of the Madison District Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis information on pages II - VIII, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Madison District Public Schools' basic financial statements. The additional information reported on pages 19 - 30, is presented for purpose of additional analysis and is not a required part of the basic financial statements. The additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Lewis & Knopf, P.C.*

LEWIS & KNOPF, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

MADISON DISTRICT PUBLIC SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

---

The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Madison District Public Schools' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2008.

Generally Accepted Accounting Principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

**Fund Financial Statements:**

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes several other funds to help it control and manage money for particular purposes (the Food Service and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in reconciliation.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

**District Wide Financial Statements:**

The District wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and obligations of the District are reported in the Statement of Net Assets of the District wide financial statements.

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

MADISON DISTRICT PUBLIC SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

---

**District Wide Financial Statements:** (Continued)

These two statements report the Madison District Public Schools net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School District’s financial health or financial position. Over time, increases or decreases in the School District’s net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District’s operating results. However, the School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompasses all of the School District’s services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

**The School District as Trustee – Reporting the School District’s Fiduciary Responsibilities**

The School District is the trustee, or fiduciary, for its student activity funds and its private purpose trust funds. All of the School District’s fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District’s other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**SUMMARY OF NET ASSETS:**

The following summarizes the net assets at the fiscal years ended June 30, 2008 and 2007.

|  | <u>NET ASSETS SUMMARY</u> |                      |
|--|---------------------------|----------------------|
|  | <u>2008</u>               | <u>2007</u>          |
| <u>ASSETS</u>  |                           |                      |
| Current Assets   | \$7,106,726               | \$6,204,423          |
| Non-Current Assets   | <u>13,368,296</u>         | <u>13,967,507</u>    |
| <u>TOTAL ASSETS</u>  | <u>\$20,475,022</u>       | <u>\$20,171,930</u>  |
| <br><u>LIABILITIES</u>                                     |                           |                      |
| Current Liabilities  | \$8,447,017               | \$8,549,002          |
| Long-Term Liabilities                                      | <u>12,854,926</u>         | <u>14,117,237</u>    |
| Total Liabilities  | \$21,301,943              | \$22,666,239         |
| <br><u>NET ASSETS</u>                                      |                           |                      |
| Invested in Capital Assets - Net of Related Debt (Deficit) | (384,529)                 | (1,002,386)          |
| Restricted - Debt Retirement                               | 739,803                   | 626,570              |
| Unrestricted (Deficit)                                     | <u>(1,182,195)</u>        | <u>(2,118,493)</u>   |
| Total Net Assets (Deficit)                                 | <u>(\$826,921)</u>        | <u>(\$2,494,309)</u> |
| <br><u>TOTAL LIABILITIES AND NET ASSETS</u>                | <u>\$20,475,022</u>       | <u>\$20,171,930</u>  |

MADISON DISTRICT PUBLIC SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**RESULTS OF OPERATIONS:**

For the fiscal years ended June 30, 2008 and 2007, the District wide results of operations were:

|   | <u>2008</u>               | <u>2007</u>                 |
|---|---------------------------|-----------------------------|
| <b>REVENUES</b>                               |                           |                             |
| <u>General Revenues:</u>                      |                           |                             |
| Property Taxes Levied for General Operations  | \$2,725,552               | \$2,530,505                 |
| Property Taxes Levied for Debt Retirement     | 1,894,355                 | 1,802,909                   |
| State of Michigan Unrestricted Foundation Aid | 8,920,305                 | 10,710,506                  |
| Special Item - Impairment of Capital Assets   | 0                         | (470,000)                   |
| Other General Revenues                        | <u>225,951</u>            | <u>246,318</u>              |
| Total General Revenues                        | \$13,766,163              | \$14,820,238                |
| <u>Operating Grants:</u>                      |                           |                             |
| Federal                                       | 1,346,139                 | 1,378,459                   |
| State of Michigan                             | 925,279                   | 0                           |
| Other Grants                                  | <u>1,251,506</u>          | <u>1,436,338</u>            |
| Total Operating Grants                        | \$3,522,924               | \$2,814,797                 |
| <u>Charges for Services:</u>                  |                           |                             |
| Food Service                                  | 149,878                   | 191,682                     |
| Athletics                                     | 46,708                    | 41,520                      |
| Other Charges for Services                    | <u>61,128</u>             | <u>58,534</u>               |
| Total Charges for Services                    | <u>\$257,714</u>          | <u>\$291,736</u>            |
| Total Revenues                                | \$17,546,801              | \$17,926,771                |
| <br><u>EXPENSES</u>                           |                           |                             |
| Instruction                                   | 8,648,273                 | 8,236,194                   |
| Support Services                              | 5,633,494                 | 6,785,004                   |
| Community Services                            | 63,707                    | 105,739                     |
| Food Service                                  | 663,792                   | 560,990                     |
| Athletics                                     | 158,070                   | 171,692                     |
| Interest - Long-Term Obligations              | <u>712,077</u>            | <u>748,057</u>              |
| Total Expenses                                | <u>\$15,879,413</u>       | <u>\$16,607,676</u>         |
| <br><u>INCREASE IN NET ASSETS</u>             | \$1,667,388               | \$1,319,095                 |
| <br>BEGINNING NET ASSETS (DEFICIT)            | <u>(2,494,309)</u>        | <u>(3,813,404)</u>          |
| <br><u>ENDING NET ASSETS (DEFICIT)</u>        | <u><u>(\$826,921)</u></u> | <u><u>(\$2,494,309)</u></u> |

MADISON DISTRICT PUBLIC SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

---

**GOVERNMENT- WIDE FINANCIAL ANALYSIS**

Analysis of Financial Position:

During the year ended June 30, 2008, the District's Total Net Assets increased by \$1,667,388 to a total of \$(825,921). The largest portion of the net assets is the District's investment in capital assets. Net assets (invested in capital assets, net of related debt) increased by \$617,857 during the year due to purchases of new capital assets and principal payments on related debt exceeding depreciation. The district's Unrestricted Net Assets increased by \$936,298 during the year and the restricted portion of the net assets increased by \$113,233. The unrestricted Net Assets may be used to fund the educational services provided to students. The restricted Net Assets consist of the restricted debt retirement funds that may only be used to pay bonded debt and restricted capital projects funds that may only be used to fund capital projects.

Analysis of Results of Operations

The district's overall revenues exceeded its expenditures for the year by \$1,667,388. The total current revenues decreased by \$379,970 from the prior year. Major changes were decreases in state aid and interdistrict sources. Current year expenditures decreased by \$728,263 over the prior year. Major changes were due to staff retirements, reducing administrative staff, semi-privatizing pupil transportation, and under spending of discretionary budget accounts.

**FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS**

Analysis of Financial Position

The focus of the District's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the district's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. An analysis of changes for the governmental funds is as follows:

General Fund

The district's general fund is the chief operating fund of the district. The general fund's unreserved fund balance increased by \$1,011,848 during the fiscal year. Revenues for the fiscal year decreased by \$949,975 due to decreases in state aid and interdistrict sources. Expenditures and other financing uses decreased by \$768,351, primarily due to staff retirements, reducing administrative staff, semi-privatizing pupil transportation, and under spending of discretionary budget accounts. The major source of general fund revenues is state aid and taxes. An analysis of them is as follows:

1. State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

- a. State of Michigan State Aid Act per student foundation allowance
- b. Student Enrollment - Blended at 75 percent of current year's fall count and 25 percent of prior year's winter count
- c. The District's non-homestead property tax levy

MADISON DISTRICT PUBLIC SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

---

**FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS (Continued)**

Analysis of Financial Position (Continued)

General Fund (Continued)

2. Per Student, Foundation Allowance:

Annually, the State of Michigan establishes the per student foundation allowance. The Madison District Public Schools foundation allowance was \$7,231 per student for the 2007-2008 school year.

3. Student Enrollment:

The District's student enrollment for the fall count of 2007-2008 was 1,631; a decrease of 121 students from the prior year.

4. Property Taxes Levied For General Operations (General Fund Non-Homestead Taxes)

The District levies 18 mills of property taxes for operations (General Fund) on Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property tax revenue for the 2007-2008 fiscal year was \$2,725,552, an increase of \$195,047 from the prior year.

**GENERAL FUND BUDGETARY HIGHLIGHTS:**

**GENERAL FUND BUDGET VS. ACTUAL**

|                     | <u>Original Budget</u>  | <u>Final Budget</u>     | <u>Actual</u>             | <u>Variance Original<br/>&amp; Final<br/>Budget %</u> | <u>Variance Actual<br/>&amp; Final Budget %</u> |
|---------------------|-------------------------|-------------------------|---------------------------|---|---|
| Revenue             | \$15,698,717            | \$14,785,000            | \$14,940,895              | 5.8   | 1.1   |
| Expenditures        | 14,986,074              | 14,385,000              | 13,929,047                | 4.0   | 3.2   |
| <b><u>TOTAL</u></b> | <b><u>\$712,643</u></b> | <b><u>\$400,000</u></b> | <b><u>\$1,011,848</u></b> |   |   |

**ANALYSIS OF BUDGETS:**

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Madison District Public Schools amends its budget during the school year. The June, 2008 budget amendment was the final budget for the fiscal year.



MADISON DISTRICT PUBLIC SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

---

**ANALYSIS OF BUDGETS: (Continued)**

Original vs. Final Budgets

Revenues

There change between the original revenue budget and the final revenue budget was insignificant (under \$10,000).

Expenditures

Significant changes between original and final budget were due to the following:

- The write-off of over \$100,000 of General Fund supplies inventory
- The purchase of high value instructional software
- Increases in the termination pay accounts due in part to an increased number of retirements
- Increased allocations for teaching supplies

Actual Results vs. Final Budgets

Revenues

Significant variances between final budget and actual were due to the following:

- The property tax collection rate was higher than projected.
- The Medicaid Fee for Service revenue was higher than estimated.

Expenditures

Significant variances between final budget and actual were due largely to the following:

- Severance payments associated with 2007-08 retirements were budgeted in 2007-08, but must be recorded in 2008-09 because of accounting requirements.
- Information technology services purchased from Oakland Schools cost less than budgeted.
- Interest on debt in the General Fund cost less than anticipated.
- Natural gas costs came in under budget.
- Various discretionary budget accounts were under spent.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

A. Debt, Principal Payments

The District made principal payments on long term debt obligations that reduced the amount of the District's long term liabilities as follows:

|                                    | Principal<br>Balance<br>7-01-07 | Increases<br>6-30-08 | Principal<br>Payments<br>6-30-08 | Principal<br>Balance<br>6-30-08 |
|------------------------------------|---------------------------------|----------------------|----------------------------------|---------------------------------|
| Bonds Payable                      | \$14,865,000                    | \$0                  | \$1,125,000                      | \$13,740,000                    |
| Bond Premium                       | 652,924                         | 0                    | 59,810                           | 593,114                         |
| Deferred Amount on Refunding       | (638,805)                       | 58,516               | 0                                | (580,289)                       |
| Compensated Asences                | 414,624                         | 0                    | 113,229                          | 301,395                         |
| Self-Insurance                     | 12,000                          | 0                    | 0                                | 12,000                          |
| Severance                          | 83,449                          | 81,100               | 0                                | 164,549                         |
| <u>Total Long-Term Obligations</u> | <u>\$15,389,192</u>             | <u>\$139,616</u>     | <u>\$1,298,039</u>               | <u>\$14,230,769</u>             |

MADISON DISTRICT PUBLIC SCHOOLS  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

---

**CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)**

B. Net Investment in Capital Assets

The district's net investment in capital assets increased by \$599,211 during the fiscal year. This can be summarized as follows:

|                                      | Balance<br>7-1-07   | Additions          | Deductions     | Balance<br>6-30-08  |
|--------------------------------------|---------------------|--------------------|----------------|---------------------|
| Capital Assets                       | \$24,108,548        | \$5,640            | \$8,810        | \$24,105,378        |
| Less: Accumulated Depreciation       | <u>(10,141,041)</u> | <u>(600,887)</u>   | <u>(4,846)</u> | <u>(10,737,082)</u> |
| <u>Net Investment Capital Outlay</u> | <u>\$13,967,507</u> | <u>(\$595,247)</u> | <u>\$3,964</u> | <u>\$13,368,296</u> |

Significant additions was the purchase of a voicemail system.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

\* Foundation Allowance

The Board of Education and Administration budgeted an estimated foundation allowance of \$7,256 per pupil for the 2008-2009 fiscal year based on information received from various educational organizations such as Michigan Association of School Business Officials, Michigan Association of School Administrators, and the Michigan Association of School Boards. The political debate regarding the funding of public education and the current economic climate in the State of Michigan will affect this estimate before the final foundation allowance is known.

\* Retirement Rates

The continuing cost of health insurance to current and potential retirees continues to drive the employer contribution rate recommended by the Michigan School Employee Retirement System to the legislature for approval. The rate is anticipated to decrease from 16.72% in 2007-2008 to 16.54% in 2008-2009.

\* The Madison District Public Schools 2008/2009 General Fund adopted budget is as follows:

|                           |                    |
|---------------------------|--------------------|
| REVENUE                   | \$14,150,000       |
| EXPENDITURES              | <u>14,350,000</u>  |
| <u>NET (UNDER) BUDGET</u> | <u>(\$200,000)</u> |

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Madison District Public Schools.

MADISON DISTRICT PUBLIC SCHOOLS  
STATEMENT OF NET ASSETS  
AS OF JUNE 30, 2008

|   | <u>Governmental<br/>Activities</u> |
|---|------------------------------------|
| <u>ASSETS</u>   |                                    |
| <u>CURRENT ASSETS</u>                                     |                                    |
| Cash and Cash Equivalents                                 | \$4,293,808                        |
| Investments   | 178,234                            |
| Accounts Receivable                                       | 27,108                             |
| Due from Other Governmental Units                         | 2,495,357                          |
| Inventory   | 8,584                              |
| Prepaid Expenses  | 103,635                            |
| Total Current Assets                                      | <u>\$7,106,726</u>                 |
| <u>NON-CURRENT ASSETS</u>                                 |                                    |
| Land  | 1,798,857                          |
| Capital Assets  | 22,306,521                         |
| Less: Accumulated Depreciation                            | <u>(10,737,082)</u>                |
| Total Noncurrent Assets                                   | <u>\$13,368,296</u>                |
| <u>TOTAL ASSETS</u>                                       | <u>\$20,475,022</u>                |
| <u>LIABILITIES</u>  |                                    |
| <u>CURRENT LIABILITIES</u>                                |                                    |
| Accounts Payable  | \$599,770                          |
| State Aid Note Payable                                    | 4,800,000                          |
| Due to Internal Fund                                      | 108,611                            |
| Salaries Payable  | 937,244                            |
| Accrued Expenses  | 489,921                            |
| Deferred Revenue  | 135,628                            |
| Current Portion of Long-Term Obligations                  | 1,375,843                          |
| Total Current Liabilities                                 | <u>\$8,447,017</u>                 |
| <u>NON-CURRENT LIABILITIES</u>                            |                                    |
| Noncurrent Portion of Long-Term Obligations               | <u>12,854,926</u>                  |
| <u>TOTAL LIABILITIES</u>                                  | <u>\$21,301,943</u>                |
| <u>NET ASSETS</u>   |                                    |
| <u>NET ASSETS</u>   |                                    |
| Invested in Capital Assets, Net of Related Debt (Deficit) | (384,529)                          |
| Restricted for:   |                                    |
| Debt Service  | 739,803                            |
| Unrestricted (Deficit)                                    | <u>(1,182,195)</u>                 |
| <u>TOTAL NET ASSETS (DEFICIT)</u>                         | <u>(\$826,921)</u>                 |
| <u>TOTAL LIABILITIES AND NET ASSETS</u>                   | <u>\$20,475,022</u>                |

See accompanying notes to the basic financial statements.

MADISON DISTRICT PUBLIC SCHOOLS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2008

| <u>FUNCTIONS/PROGRAMS</u>                   | <u>Expenses</u>     | <u>Program Revenues</u>         |   | <u>Net (Expense)<br/>Revenue &amp;<br/>Change in<br/>Net Assets</u> |
|---|---------------------|---------------------------------|---|---|
|   |                     | <u>Charges For<br/>Services</u> | <u>Operating<br/>Grants and<br/>Contributions</u> |   |
| Governmental Activities:                    |                     |                                 |   |   |
| Instruction                                 | \$8,648,273         | \$0                             | \$2,963,877                                       | (\$5,684,396)   |
| Support Services                            | 5,633,494           | 2,803                           | 144,375   | (5,486,316)   |
| Community Services                          | 63,707              | 58,325                          | 0   | (5,382)   |
| Food Service                                | 663,792             | 149,878                         | 414,672   | (99,242)  |
| Athletics                                   | 158,070             | 46,708                          | 0   | (111,362)   |
| Interest - Long-Term Obligations            | 712,077             | 0                               | 0   | (712,077)   |
| <u>TOTALS</u>                               | <u>\$15,879,413</u> | <u>\$257,714</u>                | <u>\$3,522,924</u>                                | <u>(\$12,098,775)</u>   |
|   |                     |                                 |   |   |
| General Revenues:                           |                     |                                 |   |   |
| Taxes:                                      |                     |                                 |   |   |
| Property Taxes, Levied for General Purposes |                     |                                 |   | 4,619,907   |
| State Aid                                   |                     |                                 |   | 8,920,305   |
| Interest                                    |                     |                                 |   | 144,945   |
| Other General Revenues                      |                     |                                 |   | 81,006  |
| Total General Revenues and Transfers        |                     |                                 |   | <u>\$13,766,163</u>   |
| Change in Net Assets                        |                     |                                 |   | <u>\$1,667,388</u>  |
|   |                     |                                 |   |   |
| Net Assets - Beginning (Deficit)            |                     |                                 |   | <u>(2,494,309)</u>  |
| <u>Net Assets - Ending (Deficit)</u>        |                     |                                 |   | <u>(\$826,921)</u>  |

See accompanying notes to the basic financial statements.

MADISON DISTRICT PUBLIC SCHOOLS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AS OF JUNE 30, 2008

|  | General<br>Fund    | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|--------------------|--------------------------------|--------------------------------|
| <u>ASSETS</u>                              |                    |                                |                                |
| Cash and Cash Equivalents                  | \$3,707,093        | \$586,715                      | \$4,293,808                    |
| Investments                                | 178,234            | 0                              | 178,234                        |
| Accounts Receivable                        | 25,855             | 1,253                          | 27,108                         |
| Due from Other Funds                       | 25,481             | 165,605                        | 191,086                        |
| Due from Other Governmental Units          | 2,438,703          | 56,654                         | 2,495,357                      |
| Inventory                                  | 0                  | 8,584                          | 8,584                          |
| Prepaid Expenses                           | 103,635            | 0                              | 103,635                        |
| <u>TOTAL ASSETS</u>                        | <u>\$6,479,001</u> | <u>\$818,811</u>               | <u>\$7,297,812</u>             |
| <u>LIABILITIES</u>                         |                    |                                |                                |
| Accounts Payable                           | \$554,822          | \$44,948                       | \$599,770                      |
| State Aid Note Payable                     | 4,800,000          | 0                              | 4,800,000                      |
| Due to Other Funds                         | 274,216            | 25,481                         | 299,697                        |
| Salaries Payable                           | 930,187            | 7,057                          | 937,244                        |
| Accrued Expenses                           | 380,720            | 1,522                          | 382,242                        |
| Deferred Revenue                           | 135,628            | 0                              | 135,628                        |
| Total Liabilities                          | \$7,075,573        | \$79,008                       | \$7,154,581                    |
| <u>FUND BALANCES</u>                       |                    |                                |                                |
| Reserved For:                              |                    |                                |                                |
| Inventory                                  | 0                  | 6,818                          | 6,818                          |
| Debt Retirement                            | 0                  | 739,803                        | 739,803                        |
| Unreserved:                                |                    |                                |                                |
| Undesignated, Reported In:                 |                    |                                |                                |
| General Fund (Deficit)                     | (596,572)          | 0                              | (596,572)                      |
| School Service Funds (Deficit)             | 0                  | (6,818)                        | (6,818)                        |
| Total Fund Balances (Deficit)              | (\$596,572)        | \$739,803                      | \$143,231                      |
| <u>TOTAL LIABILITIES AND FUND BALANCES</u> | <u>\$6,479,001</u> | <u>\$818,811</u>               | <u>\$7,297,812</u>             |

See accompanying notes to the basic financial statements.

MADISON DISTRICT PUBLIC SCHOOLS  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
AS OF JUNE 30, 2008

---

|                                   |           |
|-----------------------------------|-----------|
| Total Governmental Fund Balances: | \$143,231 |
|-----------------------------------|-----------|

Amounts reported for governmental activities in the statement of  
net assets are different because:

|   |            |
|---|------------|
| Capital assets used in governmental activities are not financial<br>resources and therefore are not reported as assets in governmental<br>funds. The cost of the assets is \$24,105,378 and the<br>accumulated depreciation is \$10,737,082 | 13,368,296 |
|---|------------|

|                                    |           |
|------------------------------------|-----------|
| Accrued Interest on Long-Term Debt | (107,679) |
|------------------------------------|-----------|

Long-term liabilities, including bonds payable, are not due and  
payable in the current period and therefore are not reported as  
liabilities in the funds. Long-term liabilities at year end consist of:

|                              |                |                     |
|------------------------------|----------------|---------------------|
| Bonds Payable                | \$13,740,000   |                     |
| Bond Premium                 | 593,114        |                     |
| Deferred Amount on Refunding | (580,289)      |                     |
| Compensated Absences         | 301,395        |                     |
| Self Insurance               | 12,000         |                     |
| Severance                    | 164,549        |                     |
| Total Long-Term Liabilities  | <u>164,549</u> | <u>(14,230,769)</u> |

|  |                    |
|--|--------------------|
| <u>TOTAL NET ASSETS -</u>                | <u>(\$826,921)</u> |
| <u>GOVERNMENTAL ACTIVITIES (DEFICIT)</u> |                    |

MADISON DISTRICT PUBLIC SCHOOLS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2008

|  | General<br>Fund           | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|---------------------------|--------------------------------|--------------------------------|
| <u>REVENUES</u>  |                           |                                |                                |
| Local Sources  | \$2,955,121               | \$2,191,234                    | \$5,146,355                    |
| State Sources  | 9,821,047                 | 24,537                         | 9,845,584                      |
| Federal Sources  | 956,004                   | 390,135                        | 1,346,139                      |
| Total Revenues   | <u>\$13,732,172</u>       | <u>\$2,605,906</u>             | <u>\$16,338,078</u>            |
| <u>EXPENDITURES</u>  |                           |                                |                                |
| Current:   |                           |                                |                                |
| Instruction  | 8,294,698                 | 0                              | 8,294,698                      |
| Support Services   | 5,427,206                 | 0                              | 5,427,206                      |
| Community Services   | 0                         | 63,707                         | 63,707                         |
| Food Service   |                           | 657,867                        | 657,867                        |
| Athletics  | 0                         | 158,070                        | 158,070                        |
| Debt Service   | 0                         | 1,820,172                      | 1,820,172                      |
| Total Expenditures   | <u>\$13,721,904</u>       | <u>\$2,699,816</u>             | <u>\$16,421,720</u>            |
| Excess (Deficiency) of Revenues<br>Over (Under) Expenditures | \$10,268                  | (\$93,910)                     | (\$83,642)                     |
| <u>OTHER FINANCING SOURCES (USES)</u>                        |                           |                                |                                |
| Transfers from (to) Other Funds                              | (207,143)                 | 207,143                        | 0                              |
| Other Transfers  | 1,208,723                 | 0                              | 1,208,723                      |
| Total Other Financing Sources (Uses)                         | <u>\$1,001,580</u>        | <u>\$207,143</u>               | <u>\$1,208,723</u>             |
| Net Change in Fund Balance                                   | <u>\$1,011,848</u>        | <u>\$113,233</u>               | <u>\$1,125,081</u>             |
| <u>FUND BALANCE - BEGINNING (DEFICIT)</u>                    | <u>(1,608,420)</u>        | <u>626,570</u>                 | <u>(981,850)</u>               |
| <u>FUND BALANCE - ENDING (DEFICIT)</u>                       | <u><u>(\$596,572)</u></u> | <u><u>\$739,803</u></u>        | <u><u>\$143,231</u></u>        |

See accompanying notes to the basic financial statements.

MADISON DISTRICT PUBLIC SCHOOLS  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2008

---

|  |                    |
|--|--------------------|
| Total net change in fund balances - governmental funds   | \$1,125,081        |
| Amounts reported for governmental activities in the statement of activities are different because:   |                    |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period. | (599,211)          |
| Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.  | 1,125,000          |
| Change in accrued interest on long-term liabilities  | (16,905)           |
| Underwriter's premium reported as revenue in the governmental funds upon issuance and amortized on the statement of activities.  | 59,810             |
| Deferred charges on debt refunding are reported as expenditures in the governmental funds upon issuance and amortized on the statement of activities.  | (58,516)           |
| Issuance of severance  | (81,100)           |
| (Increase) in accrued compensated absences   | <u>113,229</u>     |
| <u>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</u>   | <u>\$1,667,388</u> |



MADISON DISTRICT PUBLIC SCHOOLS  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
AS OF JUNE 30, 2008

---

|                          |                         |
|--------------------------|-------------------------|
|                          | Trust &<br>Agency       |
| <u>ASSETS</u>            |                         |
| Due from Other Funds     | <u>\$108,611</u>        |
| <u>TOTAL ASSETS</u>      | <u><u>\$108,611</u></u> |
| <u>LIABILITIES</u>       |                         |
| Due to Student Groups    | <u>\$108,611</u>        |
| <u>TOTAL LIABILITIES</u> | <u><u>\$108,611</u></u> |

See accompanying notes to the basic financial statements.

MADISON DISTRICT PUBLIC SCHOOLS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2008

|   | <u>Budgeted Amounts</u> |                     |                     |                                       |
|---|-------------------------|---------------------|---------------------|---------------------------------------|
|   | <u>Original</u>         | <u>Final</u>        | <u>Actual</u>       | <u>Variance With<br/>Final Budget</u> |
| <u>REVENUES</u>                           |                         |                     |                     |                                       |
| Local Sources                             | \$2,711,364             | \$2,785,100         | \$2,955,121         | \$170,021                             |
| State Sources                             | 10,504,496              | 9,886,800           | 9,821,047           | (65,753)                              |
| Federal Sources                           | 1,089,945               | 1,067,800           | 956,004             | (111,796)                             |
| Total Revenues                            | <u>\$14,305,805</u>     | <u>\$13,739,700</u> | <u>\$13,732,172</u> | <u>(\$7,528)</u>                      |
| <u>EXPENDITURES</u>                       |                         |                     |                     |                                       |
| Current:                                  |                         |                     |                     |                                       |
| Instruction                               | 8,779,794               | 8,530,227           | 8,294,698           | 235,529                               |
| Student Services                          | 855,005                 | 717,345             | 689,560             | 27,785                                |
| Instructional Support                     | 569,048                 | 654,334             | 607,744             | 46,590                                |
| General Administration                    | 363,556                 | 314,068             | 322,063             | (7,995)                               |
| School Administration                     | 971,826                 | 1,012,308           | 986,461             | 25,847                                |
| Business Administration                   | 561,758                 | 581,862             | 534,557             | 47,305                                |
| Operation & Maintenance of Plant          | 1,921,096               | 1,737,550           | 1,719,753           | 17,797                                |
| Transportation                            | 493,838                 | 413,900             | 407,347             | 6,553                                 |
| Support Services - Other                  | 220,847                 | 222,406             | 159,721             | 62,685                                |
| Total Expenditures                        | <u>\$14,736,768</u>     | <u>\$14,184,000</u> | <u>\$13,721,904</u> | <u>\$462,096</u>                      |
| Excess of Revenues Over Expenditures      | <u>(\$430,963)</u>      | <u>(\$444,300)</u>  | <u>\$10,268</u>     | <u>\$454,568</u>                      |
| <u>OTHER FINANCING SOURCES (USES)</u>     | <u>1,143,606</u>        | <u>844,300</u>      | <u>1,001,580</u>    | <u>157,280</u>                        |
| Net Change in Fund Balance                | <u>\$712,643</u>        | <u>\$400,000</u>    | <u>\$1,011,848</u>  | <u>\$611,848</u>                      |
| <u>FUND BALANCE - BEGINNING (DEFICIT)</u> |                         |                     | <u>(1,608,420)</u>  |                                       |
| <u>FUND BALANCE - ENDING (DEFICIT)</u>    |                         |                     | <u>(\$596,572)</u>  |                                       |

See accompanying notes to the basic financial statements.

MADISON DISTRICT PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008

---

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Madison District Public Schools (the "School District") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

**Reporting Entity**

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

**Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets (deficit) and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

**Government-wide Financial Statements** - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

MADISON DISTRICT PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008

---

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Fund Financial Statements** - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the School District.

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

The School District reports the following major governmental fund:

**General Fund** - The General Fund is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

Additionally, the School District reports the following fund types:

**Special Revenue Funds** - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The School District's Special Revenue Funds include food services, athletics, and the early childhood development center. Any operating deficit generated by these activities is the responsibility of the General Fund.

**Debt Service Funds** - Debt Service Funds are used to record tax, interest, other revenue for payment of interest, principal, and other expenditures on bonds outstanding.

**Student Activity (Agency) Fund** - The School District presently maintains a Student Activity Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

**Assets, Liabilities, and Net Assets or Equity**

**Cash and Investments** - Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the School District's funds is generally allocated to each fund using a weighted average of balance for the principal.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

MADISON DISTRICT PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008

---

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are assessed as of December 31 and the related property taxes become a lien on July 1 for approximately 50 percent of the taxes that are due on September 15 and December 1 for the remainder of the property taxes that are due on February 14. The final collection date is February 28, after which they are added to the county tax rolls.

**Inventories and Prepaid Costs** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both government-wide and fund financial statements.

**Capital Assets** - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have infrastructure-type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

| <u>Description</u>               | <u>Governmental Activities</u><br><u>Estimated Lives</u> |
|----------------------------------|--|
| Site Improvements                | 15 Years   |
| Buildings and Building Additions | 15 – 40 years  |
| Buses and Other Vehicles         | 10 years   |
| Furniture and Equipment          | 5 – 20 years   |

**Compensated Absences** - The liability for compensated absences reported in the government-wide statements consists of earned but unused accumulated vacation and sick leave benefits. A liability for these amounts is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

**Long-term Obligations** - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets (deficit).

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Comparative Data/Reclassifications** - Comparative data is not included in the School District's financial statements.

MADISON DISTRICT PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008

---

2) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

**Budgetary Information** - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level (i.e., basic program, added needs, etc.). State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. The budget was amended during the year to account for the decrease in state revenue as a result of declining enrollment. The School District did not have significant budget overruns.

Encumbrance accounting is employed in governmental funds. Purchase orders, contracts, etc. are encumbered during the year. At year end, any remaining purchase orders are lapsed, as they are not significant. As a result, fund balance has not been reserved.

**Fund Deficits** - As of June 30, 2008, the School District has an accumulated fund balance deficit in the General Fund in the amount of \$596,572. A deficit elimination plan is required to be filed with the State of Michigan. See Note 14 for discussion of funding uncertainties.

3) DEPOSITS AND INVESTMENTS

State statutes authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The School District is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

The School District Board of Education has designated three banks for the deposit of its funds.

The investment policy adopted by the board in accordance with state statutes has authorized investment in bonds and securities of the United States government and bank accounts and CDs and all other investments as noted by the state statutory authority as listed above.

The School District's cash and investments are subject to several types of risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level are used for the School District's deposits for custodial credit risk. At year end, the School District's deposit balance of \$894,532 had \$108,555 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the School District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

MADISON DISTRICT PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008

3) DEPOSITS AND INVESTMENTS (Continued)

**Custodial Credit Risk of Investments** - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's policy for custodial credit risk states that custodial credit risk will be minimized by limiting investments to the types of securities allowed by state law, and by prequalifying the financial institutions, broker/dealers, intermediaries, and advisors with which the School District will do business using the criteria established in the investment policy. The School District does not have investments with custodial credit risk.

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy does not restrict investment maturities. The School District's policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the School District's cash requirements.

**Credit Risk** - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The School District's investment policy does not further limit its investment choices.

At year end, the investments and the credit quality ratings of debt securities (other than the U.S. government) are as follows:

| <u>Investment</u>     | <u>Fair Value</u> | <u>Rating</u> | <u>Rating Organization</u> |
|-----------------------|-------------------|---------------|----------------------------|
| Sweep Account         | \$ 3,600,634      | AI/PI/FI      | Not Required               |
| Cash Management Funds | 178,234           | AAAm          | S&P                        |

**Concentration of Credit Risk** - The School District places no limit on the amount the School District may invest in any one issuer.

**Foreign Currency Risk** - Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. State law and the School District's policy prohibit investment in foreign currency.

4) RECEIVABLES

Receivables at June 30, 2008, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

| <u>GOVERNMENTAL ACTIVITIES</u>       | <u>AMOUNT</u>       |
|--------------------------------------|---------------------|
| State Aid                            | \$ 1,760,207        |
| Federal Grants                       | 667,310             |
| Other Grant Programs & Fees          | 67,840              |
| <u>TOTAL GOVERNMENTAL ACTIVITIES</u> | <u>\$ 2,495,357</u> |

**MADISON DISTRICT PUBLIC SCHOOLS**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

5) **CAPITAL ASSETS**

Capital asset activity of the School District's governmental activities was as follows:

|                                       | <u>BALANCE</u><br><u>JULY 1, 2007</u> | <u>ADDITIONS</u>   | <u>DEDUCTIONS</u> | <u>BALANCE</u><br><u>JUNE 30, 2008</u> |
|---------------------------------------|---------------------------------------|--------------------|-------------------|--|
| <b>GOVERNMENTAL ACTIVITIES</b>        |                                       |                    |                   |  |
| Land                                  | \$1,798,857                           | \$0                | \$0               | \$1,798,857                            |
| Site Improvements                     | 2,440,920                             | 0                  | 0                 | 2,440,920                              |
| Building and Building Improvements    | 19,180,026                            | 0                  | 0                 | 19,180,026                             |
| Buses and Other Vehicles              | 54,970                                | 0                  | 8,810             | 46,160                                 |
| Furniture and Equipment               | 633,775                               | 5,640              | 0                 | 639,415                                |
| Totals at Historical Cost             | <u>\$24,108,548</u>                   | <u>\$5,640</u>     | <u>\$8,810</u>    | <u>\$24,105,378</u>                    |
| Less: Accumulated Depreciation        |                                       |                    |                   |  |
| Site Improvements                     | (1,245,129)                           | (156,540)          | 0                 | (1,401,669)                            |
| Building and Building Improvements    | (8,458,553)                           | (386,176)          | 0                 | (8,844,729)                            |
| Buses and Other Vehicles              | (27,390)                              | (3,616)            | (4,846)           | (26,160)                               |
| Furniture and Equipment               | (409,969)                             | (54,555)           | 0                 | (464,524)                              |
| Total Accumulated Depreciation        | <u>(\$10,141,041)</u>                 | <u>(\$600,887)</u> | <u>(\$4,846)</u>  | <u>(\$10,737,082)</u>                  |
| <b><u>GOVERNMENTAL ACTIVITIES</u></b> |                                       |                    |                   |  |
| <b><u>CAPITAL ASSETS - NET</u></b>    | <u>\$13,967,507</u>                   | <u>(\$595,247)</u> | <u>\$3,964</u>    | <u>\$13,368,296</u>                    |

Depreciation expense, when appropriate, was allocated to governmental functions. Depreciation expense that was not allocated appears on the statement of activities as "unallocated". Depreciation was recorded on the statement of activities as follows:

|  |                          |
|--|--------------------------|
| Instruction                              | \$ 385,704               |
| Support Services                         | 209,258                  |
| Food Service                             | <u>5,925</u>             |
| <b><u>TOTAL DEPRECIATION EXPENSE</u></b> | <b><u>\$ 600,887</u></b> |

6) **INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

Interfund balances at June 30, 2008 consisted of the following:

| <b>DUE TO</b>        | <b><u>DUE FROM</u></b> |                 |                  |                  |                  |
|----------------------|------------------------|-----------------|------------------|------------------|------------------|
|                      | General                | Special         | Debt             | Trust &          | Total            |
|                      | Fund                   | Revenue         | Retirement       | Agency           |                  |
| General Fund         | \$0                    | \$11,778        | \$153,827        | \$108,611        | \$274,216        |
| Special Revenue Fund | <u>25,481</u>          | <u>0</u>        | <u>0</u>         | <u>0</u>         | <u>25,481</u>    |
| <b><u>TOTAL</u></b>  | <u>\$25,481</u>        | <u>\$11,778</u> | <u>\$153,827</u> | <u>\$108,611</u> | <u>\$299,697</u> |

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.



MADISON DISTRICT PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008

- 6) INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (Continued)  
Interfund transfers for the year ended June 30, 2008, consisted of the following:

| TRANSFERS TO | TRANSFERS FROM          |                  |
|--------------|-------------------------|------------------|
|              |                         | General Fund     |
|              | Food Service Fund       | \$91,279         |
|              | Athletics Fund          | 111,362          |
|              | Community Services Fund | 4,502            |
|              | <b>TOTAL</b>            | <b>\$207,143</b> |

These transfers were made to subsidize the cost of services for athletics, food service and community services.

7) LONG-TERM DEBT

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences and certain risk liabilities.

Long-term obligation activity can be summarized as follows:

|                                      | Balance<br>July 1, 2007 | Additions        | Deductions         | Balance<br>June 30, 2008 | Amount Due<br>in One Year |
|--------------------------------------|-------------------------|------------------|--------------------|--------------------------|---------------------------|
| Governmental Activities:             |                         |                  |                    |                          |                           |
| Bonds Payable                        | \$14,865,000            | \$0              | \$1,125,000        | \$13,740,000             | \$1,210,000               |
| Bond Premium                         | 652,924                 | 0                | 59,810             | 593,114                  | 59,810                    |
| Deferred Amount on Refunding         | (638,805)               | 58,516           | 0                  | (580,289)                | (58,516)                  |
| Compensated Absences                 | 414,624                 | 0                | 113,229            | 301,395                  | 0                         |
| Self-Insurance                       | 12,000                  | 0                | 0                  | 12,000                   | 0                         |
| Severance                            | 83,449                  | 81,100           | 0                  | 164,549                  | 164,549                   |
| <b>Total Governmental Activities</b> | <b>\$15,389,192</b>     | <b>\$139,616</b> | <b>\$1,298,039</b> | <b>\$14,230,769</b>      | <b>\$1,375,843</b>        |

Annual Principal Requirements

The annual principal requirements for all debts outstanding as of June 30, 2008 are as follows:

|                    | BONDS<br>PAYABLE    | INTEREST           | TOTAL               |
|--------------------|---------------------|--------------------|---------------------|
| June 30, 2009      | 1,210,000           | \$646,076          | \$1,856,076         |
| June 30, 2010      | 1,305,000           | 588,776            | 1,893,776           |
| June 30, 2011      | 1,365,000           | 536,576            | 1,901,576           |
| June 30, 2012      | 1,405,000           | 468,326            | 1,873,326           |
| June 30, 2013      | 1,405,000           | 398,076            | 1,803,076           |
| June 30, 2014-2018 | 7,050,000           | 960,566            | 8,010,566           |
| <b>TOTAL</b>       | <b>\$13,740,000</b> | <b>\$3,598,396</b> | <b>\$17,338,396</b> |

MADISON DISTRICT PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008

7) LONG-TERM DEBT (Continued)

General obligation bonds consist of the following:

|   |                      |
|---|----------------------|
| 1999 - \$19,710,000 serial bonds due in annual installments of \$1,065,000 to \$1,150,000 through May 1, 2009; interest at 4.1 percent to 5.8 percent | \$ 1,150,000         |
| 2005 - \$12,750,000 refunding bonds due in annual installments of \$60,000 to \$1,410,000 through May 1, 2018; interest at 3 percent to 5 percent     | <u>12,590,000</u>    |
| <u>TOTAL</u>  | <u>\$ 13,740,000</u> |

**Advance and Current Refundings** - In prior years, the School District defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2008, a total of \$12,590,000 of bonds outstanding are considered defeased.

8) OPERATING LEASES

Madison District Public Schools has entered into the operating leases summarized below:

The District entered into a operating lease with De Lage Landen Public Finance, LLC to lease copier equipment. The lease requires monthly payments of \$2,348 and expires in July, 2011.

Future minimum payments for the operating leases is as follows:

|               |                 |
|---------------|-----------------|
| June 30, 2009 | \$28,177        |
| June 30, 2010 | 28,177          |
| June 30, 2011 | 28,177          |
| June 30, 2012 | <u>2,348</u>    |
| <u>TOTAL</u>  | <u>\$86,879</u> |

9) DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS

**Plan Description** - The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPERS provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the MPERS. That report may be obtained by writing to the MPERS at P.O. Box 30171, Lansing, MI 48909-7671.

**Funding Policy** - Employer contributions to the MPERS result from the implementing effects of the School Finance Reform Act. Under this law, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The pension benefit rate totals 17.74 percent for the period from July 1, 2007 through September 30, 2007 and 16.72 percent for the period from October 1, 2007 through June 30, 2008 of the covered payroll to the plan. The School District's contributions to the MPERS plan for the years ended June 30, 2008, 2007, and 2006 were \$1,230,504, \$1,408,567 and \$1,445,267, respectively.

MADISON DISTRICT PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008

---

9) DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS (Continued)

**Postemployment Benefits** - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverages. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverages. Required contributions for post-employment health care benefits are included as part of the School District's total contribution to the MPSERS plan discussed above.

10) RISK MANAGEMENT

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for general liability, property and casualty, employee health and accident, and errors and omissions. The School District participates in the SET/SEG (risk pool) for claims relating to workers' compensation claims for non-certified personnel. The School District is uninsured for dental and vision claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The School District estimates the liability for dental and vision claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. The obligation is recorded on the statement of net assets (deficit) and totals approximately \$12,000.

11) STATE AID ANTICIPATION NOTE

On August 20, 2007, Madison District Public Schools borrowed \$4,800,000 in a state aid anticipation note. The note bears interest at 3.68 percent and is due August 20, 2008. At June 30, 2008, Madison District Public Schools has accrued interest of \$163,504 on this note.

|                | <u>BALANCE</u><br><u>JULY 1, 2007</u> | <u>ADDITIONS</u> | <u>DEDUCTIONS</u> | <u>BALANCE</u><br><u>JUNE 30, 2008</u> |
|----------------|---------------------------------------|------------------|-------------------|--|
| State Aid Note | \$5,297,000                           | \$4,800,000      | \$5,297,000       | \$4,800,000                            |

12) SUBSEQUENT EVENTS

On August 20, 2008, Madison District Public Schools borrowed \$4,000,000 in a state aid anticipation note. The note bears interest monthly at a rate of 1.70 percent and is due on August 20, 2009.

13) CONTINGENCIES AND COMMITMENTS

The School District is a defendant of several lawsuits that occurred in the normal course of business. The opinion of the School District's management is that the outcome from the pending litigation will not have a materially adverse effect on the School District's financial position.

MADISON DISTRICT PUBLIC SCHOOLS  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2008

---

14) FUNDING UNCERTAINTIES

The School District receives approximately 80 percent of its funding for regular operations from the state foundation allowance. This allowance is determined by the State and is paid on the basis of the number of students attending the School District. The base per pupil allowance had remained the same for three years, for the 2003 through 2005 fiscal years. During these years, payments to the School District have actually been reduced part way through two fiscal years due to a lack of sufficient funds at the state level. The base per pupil allowance was increased by \$118, \$210 ,and \$175 for the 2008, 2007 and 2006 fiscal years. More importantly, the School District has experienced a decline in enrollment. In addition to the declining revenue, the School District has also been challenged by rising health care and pension costs, along with contractual salary increases for the bargaining groups. The School District has taken steps to bring expenses in line with available revenue, which has resulted in an approximately \$1 million decrease in the deficit during the current year.

The General Fund deficit as of June 30, 2008 is approximately \$597 thousand. For the fiscal year ending June 30, 2008, the School District has experienced another decline in enrollment. Based upon the current cash flow projections (assuming no proration (reduction) in the base per pupil allowance for fiscal year 2009), the School District borrowed \$4.0 million subsequent to year end for additional operating cash flow in order to continue funding operations at their current level.

As required by state law, the School District has adopted a deficit elimination plan, which has been approved by the Michigan Department of Education. As part of the deficit elimination plan, the School District must plan for appropriate expenditure reductions as well as the need for additional short- and long-term cash flow borrowing.

OTHER SUPPLEMENTAL  
INFORMATION

MADISON DISTRICT PUBLIC SCHOOLS  
COMBINING BALANCE SHEET  
OTHER GOVERNMENTAL FUNDS  
AS OF JUNE 30, 2008

|   | Special Revenue Funds |                |                | Debt Retirement Funds |                  |                  |
|---|-----------------------|----------------|----------------|-----------------------|------------------|------------------|
|   | Food                  | Athletic       | Community      | 1999                  | 2005             |                  |
|   | Service               | Activities     | Services       | Debt                  | Debt             | TOTALS           |
| <b><u>ASSETS</u></b>                            |                       |                |                |                       |                  |                  |
| Cash and Cash Equivalents                       | \$339                 | \$0            | \$400          | \$124,737             | \$461,239        | \$586,715        |
| Accounts Receivable                             | 0                     | 0              | 1,253          | 0                     | 0                | 1,253            |
| Due from Other Funds                            | 0                     | 5,931          | 5,847          | 80,284                | 73,543           | 165,605          |
| Due from Other Governmental Units               | 56,654                | 0              | 0              | 0                     | 0                | 56,654           |
| Inventory                                       | 6,818                 | 0              | 1,766          | 0                     | 0                | 8,584            |
| <b><u>TOTAL ASSETS</u></b>                      | <b>\$63,811</b>       | <b>\$5,931</b> | <b>\$9,266</b> | <b>\$205,021</b>      | <b>\$534,782</b> | <b>\$818,811</b> |
| <b><u>LIABILITIES</u></b>                       |                       |                |                |                       |                  |                  |
| Accounts Payable                                | \$36,377              | \$976          | \$7,595        | \$0                   | \$0              | \$44,948         |
| Due to Other Funds                              | 25,481                | 0              | 0              | 0                     | 0                | 25,481           |
| Salaries Payable                                | 1,570                 | 4,144          | 1,343          | 0                     | 0                | 7,057            |
| Accrued Expenses                                | 383                   | 811            | 328            | 0                     | 0                | 1,522            |
| Total Liabilities                               | \$63,811              | \$5,931        | \$9,266        | \$0                   | \$0              | \$79,008         |
| <b><u>FUND EQUITY</u></b>                       |                       |                |                |                       |                  |                  |
| Reserved for Inventory                          | 6,818                 | 0              | 0              | 0                     | 0                | 6,818            |
| Reserved for Debt Retirement                    | 0                     | 0              | 0              | 205,021               | 534,782          | 739,803          |
| Unreserved and Undesignated                     | (6,818)               | 0              | 0              | 0                     | 0                | (6,818)          |
| Total Fund Equity                               | \$0                   | \$0            | \$0            | \$205,021             | \$534,782        | \$739,803        |
| <b><u>TOTAL LIABILITIES AND FUND EQUITY</u></b> | <b>\$63,811</b>       | <b>\$5,931</b> | <b>\$9,266</b> | <b>\$205,021</b>      | <b>\$534,782</b> | <b>\$818,811</b> |

**MADISON DISTRICT PUBLIC SCHOOLS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**OTHER GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

|   | Special Revenue Funds |                     |                    | Debt Retirement Funds |             |             |
|---|-----------------------|---------------------|--------------------|-----------------------|-------------|-------------|
|   | Food Service          | Athletic Activities | Community Services | 1999 Debt             | 2005 Debt   | TOTALS      |
| <b><u>REVENUES</u></b>  |                       |                     |                    |                       |             |             |
| Local Sources   | \$151,916             | \$46,708            | \$59,205           | \$783,868             | \$1,149,537 | \$2,191,234 |
| State Sources   | 24,537                | 0                   | 0                  | 0                     | 0           | 24,537      |
| Federal Sources   | 390,135               | 0                   | 0                  | 0                     | 0           | 390,135     |
| Total Revenues  | \$566,588             | \$46,708            | \$59,205           | \$783,868             | \$1,149,537 | \$2,605,906 |
| <b><u>OTHER FINANCING SOURCES</u></b>   |                       |                     |                    |                       |             |             |
| Transfers from General Fund   | 91,279                | 111,362             | 4,502              | 0                     | 0           | 207,143     |
| Total Revenues and Other Financing Sources  | \$657,867             | \$158,070           | \$63,707           | \$783,868             | \$1,149,537 | \$2,813,049 |
| <b><u>EXPENDITURES</u></b>  |                       |                     |                    |                       |             |             |
| Food Service  | 657,867               | 0                   | 0                  | 0                     | 0           | 657,867     |
| Athletics   | 0                     | 158,070             | 0                  | 0                     | 0           | 158,070     |
| Community Services  | 0                     | 0                   | 63,707             | 0                     | 0           | 63,707      |
| Debt Services   |                       |                     |                    |                       |             |             |
| Principal   | 0                     | 0                   | 0                  | 1,065,000             | 60,000      | 1,125,000   |
| Interest  | 0                     | 0                   | 0                  | 101,973               | 592,674     | 694,647     |
| Other   | 0                     | 0                   | 0                  | 0                     | 525         | 525         |
| Total Expenditures  | \$657,867             | \$158,070           | \$63,707           | \$1,166,973           | \$653,199   | \$2,699,816 |
| <b><u>EXCESS REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES</u></b> | \$0                   | \$0                 | \$0                | (\$383,105)           | \$496,338   | \$113,233   |
| <b><u>FUND BALANCE - BEGINNING OF YEAR</u></b>                                      | \$0                   | \$0                 | \$0                | \$588,126             | \$38,444    | \$626,570   |
| <b><u>FUND BALANCE - END OF YEAR</u></b>  | \$0                   | \$0                 | \$0                | \$205,021             | \$534,782   | \$739,803   |

MADISON DISTRICT PUBLIC SCHOOLS  
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS  
FOR THE YEAR ENDED JUNE 30, 2008

| <u>JUNE 30</u>         | <u>1999 Debt<br/>Principal</u> | <u>2005 Debt<br/>Principal</u> |
|------------------------|--------------------------------|--------------------------------|
| 2009                   | \$1,150,000                    | \$60,000                       |
| 2010                   | 0                              | 1,305,000                      |
| 2011                   | 0                              | 1,365,000                      |
| 2012                   | 0                              | 1,405,000                      |
| 2013                   | 0                              | 1,405,000                      |
| 2014                   | 0                              | 1,410,000                      |
| 2015                   | 0                              | 1,410,000                      |
| 2016                   | 0                              | 1,410,000                      |
| 2017                   | 0                              | 1,410,000                      |
| 2018                   | 0                              | 1,410,000                      |
| <u>TOTAL</u>           | <u>\$1,150,000</u>             | <u>\$12,590,000</u>            |
| Principal Payments Due | May 1                          | May 1                          |
| Interest Payments Due  | May 1 and<br>November 1        | May 1 and<br>November 1        |
| Interest Rate          | 4.1% to 5.8%                   | 3% to 5%                       |
| Original Issue         | <u>\$19,710,000</u>            | <u>\$12,750,000</u>            |



MADISON DISTRICT PUBLIC SCHOOLS

MADISON HEIGHTS, MICHIGAN

FEDERAL AWARDS  
SUPPLEMENTAL INFORMATION

FOR THE YEAR ENDED JUNE 30, 2008

## CONTENTS

|   | <u>PAGE</u> |
|---|-------------|
| Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 1 – 2       |
| Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133   | 3 – 4       |
| Schedule of Expenditures of Federal Awards for the year ended June 30, 2008   | 5 – 6       |
| Notes/Reconciliation to the Schedule of Expenditures of Federal Awards for the year ended June 30, 2008   | 7           |
| Reconciliation of Form R7120 "Grant Section Auditor's Report" to the Schedule of Expenditures of Federal Awards for the year ended June 30, 2008  | 8           |
| Summary of Findings and Questioned Costs for the year ended June 30, 2008   | 9 – 11      |
| Status of Prior Year Findings   | 12          |



October 30, 2008

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education of  
Madison District Public Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Madison District Public Schools, as of and for the year ended June 30, 2008, which collectively comprise the Madison District Public Schools' basic financial statements and have issued our report thereon dated October 30, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Madison District Public Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Madison District Public Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Madison District Public Schools' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Madison District Public Schools' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Madison District Public Schools' financial statements that is more than inconsequential will not be prevented or detected by the Madison District Public Schools' internal control. We consider the deficiencies identified as 2008-1, 2008-2, 2008-3 and 2008-4 described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Madison District Public Schools' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.



Madison District Public Schools

Page 2

October 30, 2008

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Madison District Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standard* which is described in the accompanying findings and questioned costs as item 2008-1.

Madison District Public Schools' response to the significant deficiency and findings related to compliance and other matters identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Madison District Public Schools' response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the finance committee, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

LEWIS & KNOFF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS





Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

October 30, 2008

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

To the Board of Education of  
Madison District Public Schools

Compliance

We have audited the compliance of Madison District Public Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Madison District Public Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Madison District Public Schools' management. Our responsibility is to express an opinion on Madison District Public Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Madison District Public Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Madison District Public Schools' compliance with those requirements.

In our opinion, Madison District Public Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Madison District Public Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Madison District Public Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Madison District Public Schools' internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.



Madison District Public Schools  
Page 2  
October 30, 2008

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Madison District Public Schools, as of and for the year ended June 30, 2008, and have issued our report thereon dated October 30, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Madison District Public Schools' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the management, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

LEWIS & KNOPF, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

MADISON DISTRICT PUBLIC SCHOOLS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2008

| FEDERAL GRANTOR/<br>PASS THROUGH GRANTOR/<br>PROGRAM TITLE | FEDERAL<br>CFDA<br>NUMBER | PASS -<br>THROUGH<br>PROJECT<br>NUMBER | APPROVED<br>GRANT AWARD<br>AMOUNT |
|--|---------------------------|--|-----------------------------------|
| <u>U.S. DEPARTMENT OF EDUCATION</u>                        |                           |  |                                   |
| Passed Through Michigan Department of Education:           |                           |  |                                   |
| Title I Grants to Local Educational Agencies:              | 84.010                    |  |                                   |
| Title I Regular (06-07)                                    |                           | 71530-0607                             | \$356,451                         |
| Title I Regular (07-08)                                    |                           | 81530-0708                             | 459,478                           |
| Total Title I  |                           |  | <u>\$815,929</u>                  |
| Special Education - Grants to States:                      | 84.027                    |  |                                   |
| Service Provider - Self Review (06-07)                     |                           | 70440-0607                             | 4,500                             |
| Safe & Drug Free Schools & Communities Act                 | 84.186                    | 70250-0607                             | 8,903                             |
| Safe & Drug Free Schools (06-07)                           |                           |  |                                   |
| Innovative Education Program Strategies                    | 84.298                    |  |                                   |
| Title V (07-08)  |                           | 80250-0708                             | 3,650                             |
| Enhancing Education Through Technology                     | 84.318                    |  |                                   |
| Technology Literacy Challenge Grants (06-07)               |                           | 74290-0607                             | 3,659                             |
| Technology Literacy Challenge Grants (07-08)               |                           | 84290-0708                             | 4,319                             |
| Total Enhancing Education Through Technology               |                           |  | <u>\$7,978</u>                    |
| Title III - Limited English Proficient Students            | 84.365A                   |  |                                   |
| Title III (06-07)  |                           | 70520-0607                             | 45,926                            |
| Title III (07-08)  |                           | 80520-0708                             | 38,628                            |
| Total Title III - Limited English Proficient Students      |                           |  | <u>\$84,554</u>                   |
| Teacher/Principal Training and Recruiting                  | 84.367                    |  |                                   |
| Improving Teacher Quality (06-07)                          |                           | 70580-0607                             | 116,491                           |
| Improving Teacher Quality (07-08)                          |                           | 80580-0708                             | 150,162                           |
| Total Teacher/Principal Training & Recruiting              |                           |  | <u>\$266,653</u>                  |
| Total Passed Through Michigan Department of Education      |                           |  | <u>\$1,192,167</u>                |
| Passed Through Oakland Schools:                            |                           |  |                                   |
| Special Education - Grants to States:                      | 84.027                    |  |                                   |
| IDEA Flowthrough (05-06)                                   |                           | 60450-0506                             | 474,557                           |
| IDEA Flowthrough (06-07)                                   |                           | 70450-0607                             | 416,047                           |
| IDEA Flowthrough (07-08)                                   |                           | 80450-0708                             | 418,225                           |
| Positive Behavior Support Initiative (06-07)               |                           | 70450-0708                             | 6,939                             |
| Positive Behavior Support Initiative (06-07)               |                           | 80450-0708                             | 4,000                             |
| Total Special Education Grants to States                   |                           |  | <u>\$1,319,768</u>                |
| Vocational Education - Grants to States                    | 84.048A                   |  |                                   |
| CTE Perkins  |                           | 83520-801218                           | 15,506                            |

| ACCRUED<br>(DEFERRED)<br>REVENUE<br>JULY 1, 2007 | PRIOR YEAR<br>EXPENDITURES | CURRENT YEAR<br>EXPENDITURES | ADJUSTMENTS<br>PRIOR<br>YEARS | CURRENT<br>YEAR CASH/<br>PAYMENTS IN<br>KIND RECEIVED | ACCRUED<br>(DEFERRED)<br>REVENUE<br>JUNE 30, 2008 |
|--|----------------------------|------------------------------|-------------------------------|---|---|
| \$63,978   | \$310,293                  | \$46,149                     | \$0                           | \$110,127   | \$0   |
| 0  | 0                          | 310,797                      | 0                             | 221,000   | 89,797  |
| \$63,978   | \$310,293                  | \$356,946                    | \$0                           | \$331,127   | \$89,797  |
| 4,500  | 4,500                      | 0                            | 0                             | 4,500   | 0   |
| 7,361  | 7,361                      | 0                            | 0                             | 7,361   | 0   |
| 0  | 0                          | 0                            | 0                             | 0   | 0   |
| 394  | 3,659                      | 0                            | 0                             | 394   | 0   |
| 0  | 0                          | 4,319                        | 0                             | 0   | 4,319   |
| \$394  | \$3,659                    | \$4,319                      | \$0                           | \$394   | \$4,319   |
| 9,556  | 45,926                     | 0                            | 0                             | 9,556   | 0   |
| 0  | 0                          | 14,603                       | 0                             | 12,000  | 2,603   |
| \$9,556  | \$45,926                   | \$14,603                     | \$0                           | \$21,556  | \$2,603   |
| 28,702   | 99,762                     | 0                            | 0                             | 28,702  | 0   |
| 0  | 0                          | 106,032                      | 0                             | 61,000  | 45,032  |
| \$28,702   | \$99,762                   | \$106,032                    | \$0                           | \$89,702  | \$45,032  |
| \$114,491  | \$471,501                  | \$481,900                    | \$0                           | \$454,640   | \$141,751   |
| 13,476   | 455,160                    | 0                            | 0                             | 13,476  | 0   |
| 109,989  | 416,047                    | 0                            | 0                             | 109,989   | 0   |
| 0  | 0                          | 410,815                      | 0                             | 0   | 410,815   |
| 6,939  | 6,939                      | 0                            | 0                             | 6,939   | 0   |
| 0  | 0                          | 3,405                        | 0                             | 0   | 3,405   |
| \$130,404  | \$878,146                  | \$414,220                    | \$0                           | \$130,404   | \$414,220   |
| 0  | 0                          | 15,365                       | 0                             | 0   | 15,365  |



MADISON DISTRICT PUBLIC SCHOOLS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2008

| FEDERAL GRANTOR/<br>PASS THROUGH GRANTOR/<br>PROGRAM TITLE  | FEDERAL<br>CFDA<br>NUMBER | PASS -<br>THROUGH<br>PROJECT<br>NUMBER | APPROVED<br>GRANT AWARD<br>AMOUNT |
|---|---------------------------|--|-----------------------------------|
| <u>U.S. DEPARTMENT OF EDUCATION</u> (Continued)             |                           |  |                                   |
| Passed Through Oakland Schools: (Continued)                 |                           |  |                                   |
| Preschool Incentive:  | 84.173                    |  |                                   |
| Preschool (06-07)   |                           | 70460-0607                             | \$42,136                          |
| Preschool (07-08)   |                           | 70460-0708                             | 43,940                            |
| Total Preschool Incentive                                   |                           |  | <u>\$86,076</u>                   |
| Total Passed Through Oakland Schools                        |                           |  | <u>\$1,421,350</u>                |
| <u>TOTAL U.S. DEPARTMENT OF EDUCATION</u>                   |                           |  | \$2,613,517                       |
| <u>U.S. DEPARTMENT OF AGRICULTURE</u>                       |                           |  |                                   |
| Passed Through Michigan Department of Education:            |                           |  |                                   |
| Food Distribution   | 10.550                    |  |                                   |
| Entitlement Commodities                                     |                           | N/A                                    | \$33,064                          |
| Bonus Commodities   |                           | N/A                                    | 0                                 |
| Total Food Distribution                                     |                           |  | <u>\$33,064</u>                   |
| School Breakfast Program                                    | 10.553                    | N/A                                    | 104,032                           |
| National School Lunch Program                               | 10.555                    | N/A                                    | 582,062                           |
| Special Milk Program for Children                           | 10.556                    | N/A                                    | 2,789                             |
| Total Nutrition Cluster                                     |                           |  | <u>\$688,883</u>                  |
| Child Care Food Program                                     | 10.558                    | 8192                                   | <u>519</u>                        |
| <u>TOTAL U.S. DEPARTMENT OF AGRICULTURE</u>                 |                           |  | \$722,466                         |
| <u>U.S. DEPARTMENT OF HEALTH &amp; HUMAN SERVICES</u>       |                           |  |                                   |
| Passed Through Oakland Schools                              |                           |  |                                   |
| Medicaid  | 93.778                    |  |                                   |
| Medicaid - Transportation (06-07)                           |                           | N/A                                    | 3,596                             |
| Medicaid - Transportation (07-08)                           |                           | N/A                                    | 60                                |
| <u>TOTAL U.S. DEPARTMENT OF HEALTH &amp; HUMAN SERVICES</u> |                           |  | <u>\$3,656</u>                    |
| <u>TOTAL FEDERAL AWARDS</u>                                 |                           |  | <u>\$3,339,639</u>                |

| ACCRUED<br>(DEFERRED)<br>REVENUE<br>JULY 1, 2007 | PRIOR YEAR<br>EXPENDITURES | CURRENT YEAR<br>EXPENDITURES | ADJUSTMENTS<br>PRIOR<br>YEARS | CURRENT<br>YEAR CASH/<br>PAYMENTS IN<br>KIND RECEIVED | ACCRUED<br>(DEFERRED)<br>REVENUE<br>JUNE 30, 2008 |
|--|----------------------------|------------------------------|-------------------------------|---|---|
| \$318  | \$42,136                   | \$0                          | \$0                           | \$318   | \$0   |
| 0  | 0                          | 43,940                       | 0                             | 0   | 43,940  |
| \$318  | \$42,136                   | \$43,940                     | \$0                           | \$318   | \$43,940  |
| \$130,722  | \$920,282                  | \$473,525                    | \$0                           | \$130,722   | \$473,525   |
| \$245,213  | \$1,391,783                | \$955,425                    | \$0                           | \$585,362   | \$615,276   |
| \$0  | \$0                        | \$33,064                     | \$0                           | \$33,064  | \$0   |
| 0  | 0                          | 0                            | 0                             | 0   | 0   |
| \$0  | \$0                        | \$33,064                     | \$0                           | \$33,064  | \$0   |
| 0  | 47,842                     | 56,190                       | 0                             | 47,346  | 8,844   |
| 0  | 282,515                    | 299,549                      | 0                             | 256,548   | 43,001  |
| 0  | 1,457                      | 1,332                        | 0                             | 1,143   | 189   |
| \$0  | \$331,814                  | \$357,071                    | \$0                           | \$305,037   | \$52,034  |
| 0  | 0                          | 519                          | 0                             | 519   | 0   |
| \$0  | \$331,814                  | \$390,654                    | \$0                           | \$338,620   | \$52,034  |
| 2,896  | 3,596                      | 0                            | 0                             | 2,896   | 0   |
| 0  | 0                          | 60                           | 0                             | 60  | 0   |
| \$2,896  | \$3,596                    | \$60                         | \$0                           | \$2,956   | \$0   |
| \$248,109  | \$1,727,193                | \$1,346,139                  | \$0                           | \$926,938   | \$667,310   |

MADISON DISTRICT PUBLIC SCHOOLS  
NOTES/RECONCILIATION TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2008

---

---

FEDERAL REVENUE RECOGNIZED FOR THE SCHEDULE  
OF EXPENDITURES OF FEDERAL AWARDS

\$1,346,139

FEDERAL REVENUE RECOGNIZED PER THE GENERAL  
PURPOSE FINANCIAL STATEMENTS

General Fund \$956,004

School Service Fund 390,135

TOTAL \$1,346,139

- 1) The Schedule of Expenditures of Federal Awards had been prepared under the modified accrual basis of accounting.
- 2) Management has utilized the Grants Section Auditors Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards. All differences between the Schedule of Expenditures of Federal Awards and the Form R7120 have been reconciled in the attached reconciliation on page 8 of this report.
- 3) As of the date of completion of fieldwork, the Schedule of Transfers to Sub-Recipients from the Intermediate School Districts was not available. The amounts shown on the Schedule of Federal Financial Assistance as flow through from the Intermediate School Districts may not be conclusive.

MADISON DISTRICT PUBLIC SCHOOLS  
RECONCILIATION OF FORM R 7120 " GRANT SECTION AUDITOR'S REPORT"  
TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2008

---

---

|   |              |                         |
|---|--------------|-------------------------|
| Current Payments Per the Grant Section Auditor's Report<br>(Form R 7120)                    |              | \$454,640               |
| Cash Management System  |              | 305,556                 |
| Total   |              | <u>\$760,196</u>        |
| <u>Add:</u> Grants Passed Through the Oakland Schools                                       |              |                         |
| Special Education - Grants to States (CFDA 84.027)  | \$130,404    |                         |
| Preschool Incentive (CFDA 84.173)   | 318          |                         |
| Medicaid - Transportation (CFDA 93.778)   | <u>2,956</u> |                         |
| Total Grants Passed Through Oakland Schools   |              | 133,678                 |
| Entitlement and Bonus Commodities (CFDA 10.550)   |              | <u>33,064</u>           |
| <u>TOTAL CURRENT YEAR RECEIPTS PER SCHEDULE OF</u><br><u>EXPENDITURES OF FEDERAL AWARDS</u> |              | <u><u>\$926,938</u></u> |

MADISON DISTRICT PUBLIC SCHOOLS  
SUMMARY OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2008

---

**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

**Financial Statements**

Type of auditor’s report issued:

Unqualified

Internal control over financial reporting:

- Is a “going concern” explanatory paragraph included in the audit report? ☒ Yes ☐ No
- Is a significant deficiency disclosed? ☒ Yes ☐ No
- Is any Significant deficiency reported as a material weaknesses? ☐ Yes ☒ None reported
- Is a material noncompliance disclosed? ☐ Yes ☒ No

**Federal Awards**

- Dollar threshold use to distinguish between type A and type B programs: \$ 300,000.00
- Did the auditee qualify as a low-risk auditee? ☐ Yes ☒ No
- Is a significant deficiency disclosed for any major program? ☐ Yes ☒ No
- Is any significant deficiency reported for any major program as a material weakness? ☐ Yes ☒ None reported

Type of auditor’s report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

☐ Yes ☒ No

Identification of major programs:

CFDA Number(s)  
84.027/84.173  
10.553/10.555/10.556

Name of Federal Program or Cluster  
Special Education Cluster  
Nutrition Cluster

MADISON DISTRICT PUBLIC SCHOOLS  
SUMMARY OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2008

---

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding 2008-1**

Finding Type – Noncompliance condition

Criteria – Public Act 621 prohibits the adoption of a budget deficit.

Condition – Madison District Public Schools (the "School District") was in a deficit position at the beginning of the year.

Cause/Effect – The District's budget reflects an estimate of actual revenues and expenditures, which resulted in a projected deficit budget.

Recommendation – We recommend the School District file a deficit elimination plan.

Views of Responsible Officials and Planned Corrective Action – The School District has filed a deficit elimination plan.

**Finding 2008-2**

Finding Type – Significant deficiency

Criteria - Adequate preparation and review of bank reconciliations are an integral component of Madison District Public Schools' internal control structure. Reconciliations should be prepared and reviewed timely during the year along with evidence of the date of preparation and review.

Condition - Bank reconciliations were not prepared timely. In addition, once the bank reconciliations were prepared, they were not reviewed by someone independent of the reconciliation process.

Context - The School District has experienced turnover with the accounting manager position over the past few years.

Cause/Effect - The lack of adequate bank reconciliation procedures increases the risk of misappropriation of assets and misstatements in the financial records.

Recommendation - We recommend that the School District review current procedures to ensure bank reconciliations are completed in a timely manner along with an independent review.

Views of Responsible Officials and Planned Corrective Action - Bank reconciliation procedures will be reviewed and corrective action taken as necessary.

**Finding 2008-3**

Finding Type – Significant deficiency

Criteria - Proper segregation of duties mitigates the risk of financial reporting errors. Reliable financial reporting is necessary to carry out the School District's day-to-day activities.

Condition - Related to the accounts payable process, a lack of segregation of duties exists whereby the same individual prepares the checks for payment, has access to the signature stamp, posts entries in the general ledger, and has the ability to create new vendors.

Related to the payroll process, a lack of segregation of duties exists whereby the same individual that processes payroll is also responsible for inputting pay rate changes.

MADISON DISTRICT PUBLIC SCHOOLS  
SUMMARY OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2008

---

**SECTION II – FINANCIAL STATEMENT FINDINGS** (Continued)

**Finding 2008-3** (Continued)

Context - The School District has a limited number of staff in the business office. In addition, the School District has experienced turnover with the accounting manager position over the past few years. The Board of Education reviews the check runs regularly.

Cause/Effect - The lack of segregation of duties increases the risk of errors in financial reporting whether unintentional or intentional (fraud).

Recommendation - We recommend that the School District review segregation of duties related to various areas, including identifying the individuals that initiate, record, and review transactions within each system. Given the School District's limited staffing, cost/benefit of any changes should also be considered.

Views of Responsible Officials and Planned Corrective Action - Internal control procedures, including segregation of duties, will be reviewed and corrective action taken as necessary.

**Finding 2008-4**

Finding Type – Significant deficiency

Criteria – Adequate reconciliation procedures and documentation, timeliness of depositing cash receipts and proper segregation of duties related to cash receipting and depositing of funds mitigates the risk of financial reporting errors and misappropriation of District assets.

Condition – *Athletics* – no ticket reconciliations for contests are being used. Deposits are not made timely. *Trust and Agency Accounts* – no fundraising reconciliations were evidenced. *Food Service* – deposits are not taken to the bank daily. Segregation of Duties – one individual receives cash, issues and signs receipts and posts receipt to accounting system.

Context – The District has a limited number of staff in the business office. In addition, the District has experienced turnover with the accounting manager position over the past few years. The District does not have adequate supervision of decentralized cash receipting areas.

Cause/Effect – Lack of appropriate reconciliations and segregations of duties, increases the risk of misappropriation of assets and misstatement in the financial records.

Recommendation – We recommend the District develop and implant appropriate reconciliations and review current procedures for all decentralized cash collection points.

Views of Responsible Officials and Planned Corrective Action – New reconciliation and control procedures are being developed and implemented. Corrective action will be taken as necessary.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

There were no current year findings.

MADISON DISTRICT PUBLIC SCHOOLS  
STATUS OF PRIOR YEAR FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2008

---

**Finding 2007-6**

Program Name – Nutrition Cluster (CFDA 10.553/10.555/10.556)

Pass-through Entity – Michigan Department of Agriculture

Finding Type – Noncompliance and significant deficiency

Criteria – Competitive bids are required for purchases greater than \$18,915. A competitive bid includes sealed bids, formal advertisement, and a reasonable bid specification. Documentation supporting compliance with the bid regulations should be maintained.

Condition – *Milk Contract* – Instead of using formal public advertising to solicit bids for milk contracts, Madison District Public Schools invited several vendors to bid via written communication directly to those vendors. *Food Contract* – The School District was unable to provide evidence that the bid process was followed related to a food provider contract.

Questioned Costs - None

Context – Two vendors (one for milk and one for food) were identified which had cumulative expenditures greater than the competitive bid limit of \$18,915. *Milk Contract* – The bid documentation was reviewed and no documentation of formal advertising was found for the one vendor. *Food Contract* – Bid documentation was not found.

Cause/Effect – *Milk Contract* – The School District did not include formal advertising as part of its bid process. As a result, the number of vendors made aware of the bid was reduced and there is a possibility that the School District could have received a lower bid. *Food Contract* – The School District did not maintain documentation supporting compliance with the required bid process.

Recommendation – Madison District Public Schools should review current purchasing/bid procedures to ensure advertising and record retention is addressed.

Views of Responsible Officials and Planned Corrective Action – Subsequent to year end, a new business manager was assigned to the School District. Purchasing/bid processes will be reviewed and corrective action taken as necessary.

Status at June 30, 2008 – This finding was resolved.